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DEPARTMENT FOR EAP, EAP/CM  
NSC FOR DENNIS WILDER, KURT TONG

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TAGS: [PREL](#) [PGOV](#) [PINR](#) [ECON](#) [EFIN](#) [SENV](#) [SOCI](#) [CH](#) [HK](#)  
SUBJECT: HONG KONG CHIEF EXECUTIVE'S POLICY ADDRESS:  
SOMETHING FOR (ALMOST) EVERYONE

Classified By: E/P Chief Laurent Charbonnet; Reason 1.4 (d)

11. (C) Summary: In his third annual Policy Address on October 10, Hong Kong Chief Executive (CE) Donald Tsang touched on all the major issues of concern to the people of Hong Kong. He described a concept of "progressive development" to achieve three major goals: economic development through infrastructure projects, community development through revitalization, and promotion of social harmony by helping people help themselves. Economic development was the primary goal -- without economic prosperity, "all visions are just empty talk." Development also, however, should be "sustainable, balanced and diversified" and include environmental protection and cultural conservation. Tsang listed ten large-scale infrastructure projects to generate "huge economic benefits;" many of the plans would further enhance Hong Kong's physical integration with the Pearl River Delta region of southern China. He also described measures to reinforce Hong Kong's status as a global financial center, including steps to promote integration of the Hong Kong and Mainland financial systems. Noting that not all Hong Kong residents shared equally in its economic growth and development, Tsang listed measures to provide avenues for upward mobility and enhance the ability of low-income families to help themselves. To assist less-poor residents, he promised to lower the salaries and profits taxes. He said he would extend free education, implement "small class teaching," and expand the international school sector. As expected, Tsang did not devote much attention to political reform issues, only noting that he would "try my utmost to forge a consensus on the implementation of universal suffrage . . . and strive to secure the Central Authorities' trust and understanding for its early implementation." End Summary.

12. (C) Comment: Tsang's focus on socio-economic issues of concern to the Hong Kong public, such as air pollution and education reform, together with his announcement of tax cuts and other "goodies," were expected and politically prudent: with district council elections scheduled for November, a contentious Legislative Council (Legco) by-election in December, and an enormous budget surplus, he could not pass on an opportunity to distribute largess as broadly as possible. As politicians and other commentators pick apart the speech over the next few days, however, they undoubtedly will find some fault with nearly every section. For example, when one foreign diplomat attending the Hong Kong Government's (HKG) advance briefing for the consular corps asked who would not benefit from the new programs, Professor Lau Siu Kai of the Central Policy Unit admitted that the elderly and the working poor would gain the least; Lau said he expected to see the latter group protest. When another diplomat noted that the measures to address worsening air

pollution did not seem to reflect the public's urgent concern, Lau resorted to the HKG's claim that Hong Kong needed cooperation from across the border to improve air quality. Finally, Tsang's relatively scant attention to political reform also came as no surprise: although the three-month public consultation period for the political reform "green paper" coincidentally ended today, Lau noted that the HKG now needed to analyze the various comments, inform the central government in Beijing, and then "await their feedback before taking the next step." End Comment.

13. (SBU) In the first Policy Address of his new term of office, CE Tsang spent nearly two hours setting out a "blueprint" for the next five years. He said he had "full confidence" regarding Hong Kong's future because of strong economic growth, low unemployment, and mild inflation since 2004. He observed that the "various ups and downs" of the past ten years since Hong Kong's reversion to the PRC had given the people of Hong Kong a stronger faith in the future. Tsang also noted that, after ten years under the "one country, two systems" framework, the "advantages are there for all to see."

Theme: "Progressive Development"

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14. (SBU) Tsang described a concept of "progressive development" to achieve three major goals: economic development through infrastructure projects, community development through revitalization, and promotion of social harmony by helping people help themselves. He said economic development was the primary goal because, without economic prosperity, "all visions are just empty talk." He emphasized, however, that the development should be

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"sustainable, balanced and diversified" and should include environmental protection and cultural conservation. He also said development should "bring about social harmony" by facilitating social mobility, helping the poor, and creating job opportunities.

Aggressive Infrastructure Construction Plan

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15. (SBU) Over the next five years, Tsang said the HKG's newly created Development Bureau would coordinate ten large-scale infrastructure projects that would generate "huge economic benefits" in the form of job creation, economic growth, and improvement of the living environment. Many of the projects would further Hong Kong's physical integration with Shenzhen and other cities in the Pearl River Delta region of southern China. Tsang estimated the annual "added value to our economy" of the projects would be about HKD 100 billion (USD 13 billion), with creation of 250,000 new jobs. The list includes projects within Hong Kong, such as new mass transit rail lines and highways, development of the West Kowloon Cultural District and the old Kai Tak airport site, and creation of several "new development areas" to ease pressure on already developed districts and address the growing demand for land. There also are several proposals to improve cross-border ties, including development of the "Lok Ma Chau Loop" area along the Shenzhen border, the Guangzhou-Shenzhen-Hong Kong express rail link, the Hong Kong-Zhuhai-Macau Bridge, and a high-speed rail link between the Hong Kong and Shenzhen airports

International Financial Hub and Integration with the Mainland

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16. (SBU) Tsang said it was necessary for Hong Kong to "reinforce our position as a global financial center" in order to maintain economic growth and development. A major part of this effort would be further integration of the Hong Kong and Mainland financial systems through the "Qualified Domestic Institutional Investors Scheme," a pilot program for

Mainland individuals to invest directly in Hong Kong securities, expansion of Hong Kong's capability to handle PRC renminbi-denominated transactions, and strengthening cooperation with Mainland financial markets. Tsang also noted that Hong Kong's inclusion in the PRC's Eleventh Five-Year Plan and conclusion of the multi-phase Closer Economic Partnership Arrangement (CEPA) had laid a "sound foundation" for Hong Kong-Mainland economic cooperation. Beyond the PRC, Tsang said Hong Kong would work to develop an "Islamic Bond Market" and otherwise promote Hong Kong's financial services to Islamic countries and regions. Finally, Tsang said Hong Kong would continue to promote itself as an international arbitration center.

#### Not Just Economic Development

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17. (SBU) Tsang said his concept of "progressive development" meant "overall progress rather than economic development alone." The aim was to promote a "quality city and quality life" by addressing cultural, social, and environmental needs to achieve "sustainable, balanced and diversified development." Under this rubric Tsang listed various measures to address environmental pollution and to promote conservation of cultural heritage, both of which have become major sources of public discontent. Acknowledging that power plant emissions constitute a major local source of air pollution, Tsang said the HKG would finalize by year's end a new regulatory regime linking the power companies' permitted rate of return to achievement of emissions caps. He also said the HKG would propose legislation requiring use of low-sulfur diesel fuel by the end of 2007 and study various other measures to improve air quality, encourage use of clean technologies, improve waste management, expand park areas, and lower development density. In the area of heritage conservation, Tsang outlined policy proposals to require "heritage impact assessments" for new public works projects and to encourage "revitalization" of historic buildings. Finally, Tsang said the HKG would introduce a Food Safety Bill, establish comprehensive food safety standards, and enact food labeling legislation.

#### "Caring Society"

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18. (SBU) Tsang acknowledged that "the extent to which different sectors of the Hong Kong community share the fruits

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of prosperity varies." He said the HKG would take steps to reduce "inter-generational poverty" by providing avenues for upward mobility, principally in the form of expanded training and retraining programs. This, he said, would enhance the ability of low-income families to help themselves. To assist less-poor Hong Kong residents, Tsang also promised to lower the salaries and profits taxes. On the highly contentious issue of a minimum wage, which Hong Kong currently lacks, Tsang said he would pay close attention to the mid-term

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review of his "Wage Protection Movement," a voluntary and largely unsuccessful program initiated in late 2006 to encourage employers to raise wages for certain low-paid job categories. Finally, Tsang described some new health care and housing benefits for elderly and disadvantaged persons.

#### Education Reform

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19. (SBU) With Hong Kong's low birth rate and long life expectancy, Tsang said the HKG needed to "expedite the development of human capital." To this end, he promised to offer 12-year free education starting from the 2008-09 school year (currently, Hong Kong provides nine years of free education). Fulfilling a campaign pledge, Tsang said Hong Kong would begin to implement "small class teaching" in

2009-10. As a "global metropolis," Tsang said Hong Kong also needed to expand its international school sector, so the HKG would offer new sites for international school construction and introduce measures to attract more non-local students to local tertiary institutions.

#### Democracy and Good Governance

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¶10. (SBU) As expected, Tsang did not devote much time to political reform issues, which are being considered through the ongoing "green paper" process. He noted, however, that he would "try my utmost to forge a consensus on the implementation of universal suffrage . . . and strive to secure the Central Authorities' trust and understanding for its early implementation." Tsang also pledged to enhance the role of the district councils and work closely with Legco on formulation of new policies. On a rather patriotic note, Tsang said he would continue to support the "one country, two

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systems" principle, promote the Basic Law, and promote "national education" so the people of Hong Kong would have a stronger sense of national and cultural identity.  
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